

BUTTE-GLENN COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 1987

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

March 2008



JOHN CHIANG
California State Controller

March 21, 2008

Bill W. Brown, Ed.D., President
Board of Trustees
Butte-Glenn Community College District
3536 Butte Campus Drive
Oroville, CA 95965

Dear Dr. Brown:

The State Controller's Office audited the costs claimed by the Butte-Glenn Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2005.

The district claimed \$437,336 for the mandated program. Our audit disclosed that \$109,224 is allowable and \$328,112 is unallowable. The unallowable costs resulted primarily because the district understated authorized health service fees and overstated allowable indirect costs. The State paid the district \$135,147. The amount paid exceeds allowable costs claimed by \$25,923.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Diana Van Der Ploeg, Ed.D., President
Butte-Glenn Community College District
Andrew Suleski
Vice President, Administration
Butte-Glenn Community College District
Trevor Stewart
Director, Business Services
Butte-Glenn Community College District
Marty Rubio, Specialist
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California Community Colleges Chancellor's Office
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Butte-Glenn Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2005.

The district claimed \$437,336 for the mandated program. Our audit disclosed that \$109,224 is allowable and \$328,112 is unallowable. The unallowable costs resulted primarily from the district understating authorized health service fees and overstating allowable indirect costs. The State paid the district \$135,147. The amount paid exceeds allowable costs claimed by \$25,923.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.) repealed Education Code section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The statute's provisions would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, 2nd Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the CSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on August 27, 1987, and amended them on May 25, 1989. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2002, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Butte-Glenn Community College District claimed \$437,336 for costs of the Health Fee Elimination Program. Our audit disclosed that \$109,224 is allowable and \$328,112 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State paid the district \$135,147. Our audit disclosed that these costs are not allowable. The State will offset \$135,147 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State made no payments to the district. Our audit disclosed that \$39,782 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payments to the district. Our audit disclosed that \$69,442 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on January 18, 2008. Andrew Suleski, Vice-President, Administration, and Trevor Stewart, Director, Business Services, responded by letter dated February 1, 2008 (Attachment), agreeing with the audit results except for Finding 2. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Butte-Glenn Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

March 21, 2008

Schedule 1— Summary of Program Costs July 1, 2002, through June 30, 2005

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 227,787	\$ 227,787	\$ —	
Services and supplies	23,205	23,205	—	
Total direct costs	250,992	250,992	—	
Indirect costs	91,788	37,297	(54,491)	Finding 2
Total direct and indirect costs	342,780	288,289	(54,491)	
Less authorized health service fees	(207,633)	(309,375)	(101,742)	Finding 3
Less offsetting revenues/reimbursements	—	(11,100)	(11,100)	Finding 4
Subtotals	135,147	(32,186)	(167,333)	
Audit adjustments that exceed costs claimed	—	32,186	32,186	
Total program costs	<u>\$ 135,147</u>	—	<u>\$ (135,147)</u>	
Less amount paid by the State		(135,147)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (135,147)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 229,762	\$ 229,762	\$ —	
Services and supplies	—	23,646	23,646	Finding 1
Total direct costs	229,762	253,408	23,646	
Indirect costs	79,658	42,522	(37,136)	Finding 2
Total direct and indirect costs	309,420	295,930	(13,490)	
Less authorized health service fees	(172,599)	(245,412)	(72,813)	Finding 3
Less offsetting revenues/reimbursements	—	(10,736)	(10,736)	Finding 4
Total program costs	<u>\$ 136,821</u>	39,782	<u>\$ (97,039)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 39,782</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 241,896	\$ 241,896	\$ —	
Services and supplies	23,080	21,867	(1,213)	Finding 1
Total direct costs	264,976	263,763	(1,213)	
Indirect costs	87,575	98,014	10,439	Finding 2
Total direct and indirect costs	352,551	361,777	9,226	
Less authorized health service fees	(187,183)	(284,463)	(97,280)	Finding 3
Less offsetting revenues/reimbursements	—	(7,872)	(7,872)	Finding 4
Total program costs	<u>\$ 165,368</u>	69,442	<u>\$ (95,926)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 69,442</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 699,445	\$ 699,445	\$ —	
Services and supplies	46,285	68,718	22,433	
Total direct costs	745,730	768,163	22,433	
Indirect costs	259,021	177,833	(81,188)	
Total direct and indirect costs	1,004,751	945,996	(58,755)	
Less authorized health service fees	(567,415)	(839,250)	(271,835)	
Less offsetting revenues/reimbursements	—	(29,708)	(29,708)	
Subtotals	437,336	77,038	(360,298)	
Audit adjustments that exceed costs claimed	—	32,186	32,186	
Total program costs	<u>\$ 437,336</u>	109,224	<u>\$ (328,112)</u>	
Less amount paid by the State		(135,147)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (25,923)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Understated and overstated services and supplies

The district understated allowable services and supplies by \$22,433 for the audit period. The district inadvertently omitted allowable services and supplies totaling \$23,646 from its fiscal year (FY) 2003-04 claim. For FY 2004-05, the district overstated allowable services and supplies by \$1,213. The district overstated allowable costs because it claimed costs that exceeded those costs supported by its source documentation.

The program's parameters and guidelines state "Only expenditures which can be identified as a direct cost of the mandate can be claimed."

Recommendation

We recommend that the district claim only those mandated costs that its source documentation supports.

District's Response

The district agreed with the audit finding.

FINDING 2— Understated and overstated indirect cost rates

The district claimed unallowable indirect costs totaling \$81,188. The district overstated its indirect cost rates for FY 2002-03 and FY 2003-04. The district understated its indirect cost rate for FY 2004-05.

The district provided an indirect cost rate proposal (ICRP) to support the indirect cost rate it claimed for FY 2002-03. The district did not provide its ICRPs for FY 2003-04 and FY 2004-05. For all fiscal years, the district did not have a federally approved ICRP.

For FY 2002-03, the district overstated its indirect cost rate because the district overstated allowable management information system (MIS) costs in its indirect cost pool. The district's MIS costs include costs of the California Community Colleges Technology Center (CCCTC). The district overstated allowable MIS costs because it did not account for CCCTC expenditures that were reimbursed by restricted fund sources. The district provided detailed expenditure reports that identify each expenditure's funding source. The district reported total MIS expenditures of \$12,585,104 in its indirect cost pool. The district's expenditure reports show that restricted fund sources funded \$10,372,942 of these costs. The remaining costs, totaling \$2,212,162, are allowable for the district's indirect cost pool. The district also overstated its indirect cost rate because it did not exclude Extended Opportunity Programs and Services' other outgo costs, totaling \$547,282, from its indirect cost pool.

Because the district did not provide ICRPs for FY 2003-04 and FY 2004-05, we calculated allowable indirect cost rates based on the alternate methodology identified in the SCO's claiming instructions. We calculated the FY 2003-04 and FY 2004-05 ICRPs based on the SCO's claiming instructions dated in September 2004 and December 2005, respectively. For these fiscal years, our indirect cost rate calculations excluded MIS expenditures that were funded from restricted fund

sources. The excluded costs totaled \$11,955,020 for FY 2003-04 and \$15,552,342 for FY 2004-05. For FY 2004-05, we included depreciation and use allowance costs that the district's annual financial report identified, totaling \$2,241,894.

The following table summarizes the claimed and allowable indirect cost rates:

	Fiscal Year		
	2002-03	2003-04	2004-05
Allowable indirect cost rate	14.86%	16.78%	37.16%
Less claimed indirect cost rate	(36.57)%	(34.67)%	(33.05)%
Audit adjustment	(21.71)%	(17.89)%	4.11%

The following table summarizes the audit adjustment, based on the allowable indirect cost rates:

	Fiscal Year		
	2002-03	2003-04	2004-05
Allowable direct costs	\$ 250,992	\$ 253,408	\$ 263,763
Allowable indirect cost rate	× 14.86%	× 16.78%	× 37.16%
Allowable indirect costs	37,297	42,522	98,014
Less indirect costs claimed	(91,788)	(79,658)	(87,575)
Audit adjustment	\$ (54,491)	\$ (37,136)	\$ 10,439

The program's parameters and guidelines state that districts may claim costs in the manner described in the SCO's claiming instructions. The SCO's claiming instructions state that districts have the option of using a federally approved rate based on the cost principles of Office of Management and Budget (OMB) Circular A-21 or the SCO's alternative methodology. The claiming instructions state that the alternative methodology excludes unallowable costs. OMB Circular A-21 specifies that amounts received to finance administrative or service activities must be treated as a credit to the affected cost category before that category is allocated to benefiting functions. The claiming instructions also state that allowable costs include salaries, benefits, and supplies costs, excluding capital outlay and other outgo costs. In addition, the SCO's claiming instructions dated December 2005 (applicable to FY 2004-05) identify depreciation and use allowance costs as allowable indirect costs.

Recommendation

We recommend that the district claim indirect costs based on indirect cost rates computed in accordance with the SCO's claiming instructions. The district must obtain federal approval if it prepares an ICRP in accordance with OMB Circular A-21. Alternatively, the district must prepare its ICRP using the alternative methodology identified in the SCO's claiming instructions.

District's Response

The district reviewed OMB A-21 and FAM-29C in review of the indirect cost allocations created by the State Controller's Office (SCO). The rates assigned by the SCO are significantly less for 2002-03 and 2003-04 than originally claimed by the district. The FAM-29C did not allow depreciation expenditures until the 2004-05 fiscal year. The addition of depreciation would have increased the indirect cost rate in both years for the district.

The district is not in complete agreement with the treatment of MIS costs associated with the California Community Colleges Technology Center [CCCTC]. These costs were excluded by the SCO in their calculation of the district's indirect cost pool. The district provided information to the SCO that there is a direct financial involvement under GASB-24 that could allow these expenditures to remain in the indirect cost pool calculation. This disagreement is not great enough for the district to contest the findings of the audit.

SCO's Comment

Our finding and recommendation are unchanged. We calculated the FAM-29C indirect cost rates according to the SCO's claiming instructions applicable to each fiscal year. The FY 2002-03 and FY 2003-04 claiming instructions did not include depreciation costs in the FAM-29C indirect cost pool. Neither this district nor any other district requested that the Commission on State Mandates review the SCO's claiming instructions pursuant to Title 2 California Code of Regulations (CCR), section 1186. Furthermore, the district may not now request a review of the claiming instructions applicable to the audit period. Title 2 CCR section 1186, subdivision (j)(2) states, "A request for review filed after the initial claiming deadline must be submitted on or before January 15 following a fiscal year in order to establish eligibility for reimbursement for that fiscal year."

The district believes that its indirect cost pool should include costs associated with the CCCTC because the district has a direct financial involvement with the CCCTC under the provisions of Governmental Accounting Standards Board Statement Number 24. We do not contest that the district has a direct financial involvement with the CCCTC. However, we believe that issue is irrelevant to the indirect cost rate calculation. OMB Circular A-21 specifies that amounts received to finance administrative or service activities must be treated as a credit to the affected cost category before that category is allocated to benefiting functions. Restricted fund sources funded the district's MIS costs associated with the CCCTC. As a result, we treated the restricted funds received as a credit to the district's MIS costs that are included in the indirect cost pool.

**FINDING 3—
Understated authorized
health service fees**

The district understated authorized health service fees by \$271,835 for the audit period. The district reported inaccurate enrollment and Board of Governors Grant (BOGG) recipient data in calculating authorized health service fees.

Mandated costs do not include costs that are reimbursable from authorized fees. Government Code section 17514 states that “costs mandated by the state” means any increased costs that a school district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556 states that CSM shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

For the audit period, Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. The California Community Colleges Chancellor’s Office (CCCCO) identified the fees authorized by Education Code section 76355, subdivision (a). For FY 2002-03 and FY 2003-04, the authorized fees are \$12 per semester and \$9 per summer session. For FY 2004-05, the authorized fees are \$13 per semester and \$10 per summer session.

We calculated authorized health service fees using student enrollment and BOGG recipient data that the district reported to the CCCCCO. The district subsequently provided its annual Financial Aid Reconciliation Report for each fiscal year. These reports identified BOGG recipient data matching the data that we received from the CCCCCO.

The following table summarizes the allowable authorized health service fees and the audit adjustment:

	Semester			
	Summer	Fall	Spring	Total
<u>Fiscal Year 2002-03</u>				
Student enrollment subject to health service fee	6,675	10,806	9,969	
Health service fee rate	× \$ (9)	× \$ (12)	× \$ (12)	
Authorized health service fees	<u>\$ (60,075)</u>	<u>\$ (129,672)</u>	<u>\$ (119,628)</u>	\$ (309,375)
Less authorized health service fees claimed				<u>207,633</u>
Audit adjustment, FY 2002-03				<u>(101,742)</u>
<u>Fiscal Year 2003-04</u>				
Student enrollment subject to health service fee	3,708	8,678	8,992	
Health service fee rate	× \$ (9)	× \$ (12)	× \$ (12)	
Authorized health service fees	<u>\$ (33,372)</u>	<u>\$ (104,136)</u>	<u>\$ (107,904)</u>	(245,412)
Less authorized health service fees claimed				<u>172,599</u>
Audit adjustment, FY 2003-04				<u>(72,813)</u>

Fiscal Year 2004-05

Student enrollment subject to health service fee	4,174	9,223	9,448	
Health service fee rate	× \$ (10)	× \$ (13)	× \$ (13)	
Authorized health service fees	<u>\$ (41,740)</u>	<u>\$ (119,899)</u>	<u>\$ (122,824)</u>	(284,463)
Less authorized health service fees claimed				<u>187,183</u>
Audit adjustment, FY 2004-05				<u>(97,280)</u>
Total audit adjustment				<u>\$ (271,835)</u>

Recommendation

We recommend that the district deduct authorized health service fees from mandate-related costs claimed. The district should maintain records that support its calculation of authorized health service fees. These records should identify the actual non-duplicated student enrollment and students who are exempt from health service fees under Education Code section 76355, subdivision (c).

District's Response

The district agreed with the audit finding.

**FINDING 4—
Understated offsetting
savings/reimbursements**

The district understated offsetting savings/reimbursements by \$29,708. The district received health services program-related revenue from various sources that it did not report on its mandated cost claims.

The parameters and guidelines provide that “reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.”

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Audit adjustment	<u>\$ (11,100)</u>	<u>\$ (10,736)</u>	<u>\$ (7,872)</u>	<u>\$ (29,708)</u>

Recommendation

We recommend that the district report all health services program-related offsetting savings/reimbursements on its mandated cost claims.

District's Response

The district agreed with the audit finding.

**Attachment—
District's Response to
Draft Audit Report**



BUTTE COLLEGE

February 1, 2008

Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr Spano:

This letter is the response of the Butte-Glenn Community College District to the letter of Jeffrey V. Brownfield dated January 18, 2008 which enclosed a draft copy of your Audit Report of the district's Health Fee Elimination for the period of July 1, 2002 through June 30, 2005.

Finding 1 – Understated and overstated services and supplies

The district agrees with the finding.

Finding 2 – Understated and overstated indirect cost rates

The district reviewed OMB A-21 and FAM-29C in review of the indirect cost allocations created by the State Controller's Office (SCO). The rates assigned by the SCO are significantly less for 2002-03 and 2003-04 than originally claimed by the district. The FAM-29C did not allow depreciation expenditures until the 2004-05 fiscal year. The addition of depreciation would have increased the indirect cost rate in both years for the district.

The district is not in complete agreement with the treatment of MIS costs associated with the California Community Colleges Technology Center. These costs were excluded by the SCO in their calculation of the district's indirect cost pool. The district provided information to the SCO that there is a direct financial involvement under GASB 24 that could allow these expenditures to remain in the indirect cost pool calculation. This disagreement is not great enough for the district to contest the findings of the audit.

Jim L. Spano, Chief
Mandated Cost Audits Bureau
February 6, 2008
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Finding 3 – Understated authorized health service fees

The district agrees with the finding. The district reported incorrect information as it related to enrollment and Board of Governors Grant (BOGG) recipient data.

Finding 4 – Understated offsetting savings/reimbursements

The district agrees with the finding.

Sincerely,



Andy Suleski
Vice President, Administration



Trevor Stewart
Director of Business Services

Cc: Diana Van der Ploeg, President

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>